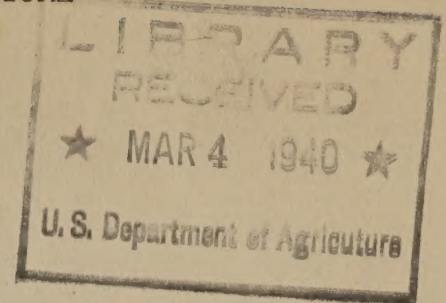


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UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics



AMERICAN FOOD PRICES AND SUPPLIES
IN RELATION TO WAR CONDITIONS

By O. C. Stine, Head Agricultural Economist

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The advance in food prices at the outbreak of the European war was due in part to unwarranted fears that food supplies available to consumers in the United States might become scarce, and in part to well-founded expectations that the demand for some foodstuffs would increase. Undoubtedly there would have been some advances in food prices even without the outbreak of the war. The prices of many foods had been low on account of large supplies and low purchasing power. Industrial activity was increasing, thus increasing payrolls and the purchasing power of laborers, and this would have increased the prices of some foodstuffs in the latter half of 1939.

Fears as to absolute or even relative scarcity of foodstuffs in the United States were unfounded. The realization of this has caused prices of some products to decline after a few weeks of advancing. The outstanding case of unfounded fears and panic purchasing was that of sugar. There was no scarcity and there is not likely to be any real scarcity of sugar available to consumers in this country. Doubtless it was the memory of the last years of the World War that caused the quick response of buyers to the outbreak of the war. In the case of sugar, a real scarcity did develop in the World War. But our sugar position now is very different from what it was then. Production in the United States and insular possessions now constitutes about 80 percent of the total supply consumed in this country; whereas in 1910-14 it constituted only about 50 percent. Cuba, lying next door, not only has an abundance for our needs but could quickly produce more; and there is not now any prospect that special European demands will draw substantially upon the Cuban supply. There is thus a real basis for the return of prices and the handling of sugar to pre-war "normalcy".

The prices of hogs and of several fats and oils advanced rather sharply, in expectation of material increases in the demands for these products from countries engaged in the war. Examining carefully the present situation with reference to lard and pork products, it is evident that the foreign takings have not increased, and they are not likely to increase in the near future, sufficiently to offset the increase in supplies

coming to market. The fats-and-oils price structure, however, has been strengthened materially in some cases, by some increase in the purchasing power of domestic consumers and the prospect of some reduction in imports.

In general it may be said that at the outbreak of this European war the United States had such an abundant supply of foodstuffs that the people of the country could be amply fed and the needs of foreign countries could be met, with prices of most products remaining at a relatively low level -- even after making some advances on account of prospective increases in demand.

Domestic food production has recovered from the domestic curtailments following the great depression. The per capita supplies of most foodstuffs are now greater than the averages for the years 1925-29. The available supplies of meat are considerably larger than in any of the years since the depression and only slightly less than in the 1925-29 average. Supplies of dairy products are even larger per person than the pre-depression averages. The supplies of fruits and of vegetables generally average larger than before the depression.

Prices of farm products in August averaged only 88 percent of the pre-war prices, as compared with a level of about 140 percent in the years 1925-29. This great difference in prices was due in large part to a great change in the general price level and a reduction in employment, but also in some part to considerable reductions in the takings of foreign countries.

The sharp advance in prices of many products carried the index of prices of farm products from 88 in August to 98 in September. Since then, the prices of some products have declined, resulting in a moderate decline in the average of all prices. The advance is being partly sustained by an increase in the purchasing power of consumers on account of increased industrial activity. The Federal Reserve index of industrial production increased from 103 in August to 111 in September, and in December reached a high peak of about 128. In some cases the advances are being maintained - in part at least - by expectations of increased demands in foreign markets in the course of the year ahead; but to some extent this prospect is already weakening or disappearing.

At this point it will be of interest to examine the situation in regard to some of the important foodstuffs.

Conditions in the wheat market have greatly changed since the outbreak of the war. A large world crop of wheat was being harvested. World stocks were large and prices low. The loan and export programs in the Department of Agriculture were supporting wheat prices in the United States far above the world market basis, but prices were still low. War conditions soon changed the world market situation. In fact, there is today hardly a world market, in the sense of a free market, outside of the United States. There is still an abundant supply of wheat in foreign countries to meet the requirements of the belligerent countries. Canada alone can supply the British needs for more than a year ahead.

In the meantime, the outlook for wheat supplies in this country has changed radically. We have still a large surplus of wheat, but the conditions of the fall seedings are so bad that it now seems probable that the wheat crop which we are to harvest in 1940 will not in itself be sufficient to meet domestic requirements. Consequently, the surplus of wheat that we now have from the 1939 and earlier crops probably will be needed in this country in the 1940 marketing season. We shall probably still have an abundant supply but with little to spare; at the most no burdensome surplus. Apparently a short crop now being harvested in Argentina is making the rest of the world a little apprehensive about next year's supplies. It seems not improbable therefore that the world wheat surpluses of the past few years will practically disappear in 1940.

The hog situation is one of the most interesting aspects of the present situation with reference to the war. An abundant supply and low prices of corn in the past few years have encouraged a great increase in the production of hogs. We were definitely on the down-side of the hog price cycle, or the up-side of the hog production cycle, when the war broke out. The prices of lard and the prices of pork products had fallen to a low level. One of the first effects of the war, of course, was to eliminate the importation of Polish ham, but this was a minor item in the situation. It was expected that the British market would take more lard and pork products. British production, however, has been increasing and, for the time being, nearby countries have continued to supply the British market with considerable quantities. More lard and pork are being taken from the United States by foreign countries; but the increase in takings constitutes a very small part of the increase in production. Consequently, after the first sharp advance, prices of hogs continued to decline, reaching a low level in December.

In the case of hogs, as in the case of wheat and other food products, the British Food Ministry has taken steps to manage supplies and prices so as to obtain what they consider to be necessary quantities at the lowest possible cost. Arrangements have been made to obtain from Canada as large a quantity as that country can furnish. Prices have been set and purchases and sales are being controlled, and the country is being rationed to some extent. Undoubtedly the consumption of pork products and lard will be restricted somewhat in relation to what it would have been without the war. Should the war continue for another year or more, it seems probable that the United Kingdom will turn to the United States for larger quantities of pork products. This may be done through Canada in part at least by offering an advantageous market which may result in that country selling short and buying from the United States. The need of turning to the United States is likely to arise in part from the inability of the United Kingdom and nearby countries to continue to produce on the pre-war level under the conditions of the war. In order to carry on the high level of production, these countries must import some feedstuffs, and these imports are likely to be reduced on account of both scarcity of shipping and high cost of freight.

It may be said, correctly perhaps, that the war has not touched the dairy industry. It is obvious, however, that the dairy industry is profiting by increased industrial activity in this country and expanded

payrolls -- which in turn is partly due to the war in Europe. An accumulated surplus of butter is now being absorbed by the market. A continuation of the war seems hardly likely to have much effect upon the dairy industry other than in its effect upon industrial activity. It may reduce the importations of cheese and possibly increase moderately the demand for canned milk.

Leaving tobacco out of the classification of foodstuffs, it may be observed that fruits have suffered more ill effects from the war than any other class of foodstuffs. The advance in payrolls has strengthened the demand for fruits in this country, but this has hardly been sufficient to offset the weakening effect of the curtailment in the foreign demand for fruits.

At the outbreak of the war we had an abundant supply of fruits for both the fresh and the dried-fruit markets. European countries immediately began to reduce their takings of fruit from the United States. Some quantities have been moving, but considerably less than in the corresponding months of a year ago. Apple exports for the season beginning July 1 have amounted to only $2\frac{1}{2}$ million bushels - less than half the exports of the same period a year ago of about 6 million. This curtailment has taken place in the face of a larger crop. Prices have been lower than a year ago, and the curtailment in the foreign outlet would have reduced prices to a much lower level were it not for the fact that the Surplus Commodities Corporation has taken about $4\frac{1}{2}$ million bushels out of the regular market for distribution in relief work. In addition, producers have undertaken to divert from the fresh market the same quantity of apples into byproducts.

These measures for increasing domestic consumption have materially modified the situation, so that storage stocks reported as of the first of the year are somewhat less than a year ago. But this reduction of stocks is likely to be more than offset by smaller exports for the remainder of the year so that the total supply for the domestic market for the remainder of this season may be somewhat larger than in the corresponding months of last year. The exports of pears have also been reduced to about half of what they were in the corresponding months a year ago.

Regulations of the United Kingdom with reference to imports of fresh fruits have undergone some significant changes. Early in September some fruits were placed on the luxury list, not to be imported except under license; the imports of apples and pears were excepted from license. An order dated November 15, however, prohibited the imports of fresh apples and pears effective November 20, except under license. Fruits already under way are to be accepted. The imports of these fruits from the Empire countries are not subject to this license. The licensing does not necessarily stop exports but it seems reasonable to assume that it will be used to curtail imports.

Developments with reference to dried fruits are similar in some respects to those with reference to apples and pears. Exports of dried fruits have not been curtailed so much as the exports of fresh fruits. The United Kingdom is one of the most important markets for dried fruits.

All the dried fruits were placed under license early in September. On September 7, the Ministry of Food requisitioned all stocks of dried fruit in the United Kingdom, those owned by British citizens abroad, and any dried fruit subsequently entering the United Kingdom. On September 21, maximum wholesale and retail prices were put into effect as part of an elaborate market-control scheme. As a result of these measures, the Ministry of Food became the sole importer of dried fruit, while former importers became in effect wholesalers purchasing requisitioned stocks released to them. The latter sell to retailers the dried fruit procured from the Ministry at the purchase price and claim compensation from the Government for their services. Retailers sell the dried fruit at the fixed maximum prices, which are calculated to include their profit.

This is a good illustration of the extent of Government operations in dealing with foodstuffs under war conditions. Furthermore, British control over such foodstuffs is taking into account both economic and political relations with other countries. Efforts are made to secure and maintain the allegiance or interest of countries such as Turkey by taking supplies from them. Another motive is to prevent the supplies from going to enemies.

The British market is well supplied with sultana raisins. The Government has bought ample supplies, principally from Australia and Turkey. To the beginning of November, for example, British purchases of Turkish raisins amounted to over 16,500 short tons, and the trade at Izmir has estimated that British purchases may represent as much as 63,000 short tons, or over two-thirds of the 1939-40 Turkish crop. The supply of currants in the United Kingdom also appears adequate for present needs. According to the Ministry of Food, about 33,600 short tons of sultanas and 35,800 short tons of currants were released to the trade during the period September 17 to December 6. These quantities are approximately normal market requirements.

The British and French are cooperating in buying food supplies as well as war materials. They have ample purchasing power, but they have embarked upon a policy of conserving that purchasing power as much as possible and using it where it will make the most effective contribution toward winning the war. Realizing the dangers arising from loss of shipping, they are taking steps to bring supplies from the distant areas now, and are using their readily available funds to buy where it is most advantageous for them to buy. Any continued loss of shipping would result in closing in somewhat the areas from which supplies can be brought. This would result in increasing the demand for products from Canada and the United States.

It is not improbable that a considerable volume of sales of products of the United States will be through Canada. The position of many of the neutral countries is similar to that of the Allies. They must obtain supplies from overseas to maintain their normal level of food production as well as for their import needs. They, too, are losing shipping and finding it increasingly difficult to obtain supplies from abroad. Thus it appears evident that, should the war continue another year, the export demand for foodstuffs from the United States is likely to increase.

This increase in demand probably would be registered most effectively in the demand for pork, lard, and perhaps some other fats and oils. In this connection, it may be noted that some European countries are, for the first time, buying considerable quantities of soybeans from this country because it is too difficult to obtain their usual supplies from Manchuria. There may be some increase in the foreign demand for dairy products. The outlook for fruit is not hopeful. Much of our fruit may continue on the luxury list and all the available supplies of fruits to be found around Europe may continue to be taken in preference to ours. It is hardly to be expected, however, that we shall lose entirely the European fruit market. The influence of the war may continue also to contribute materially to the strength of the domestic market by continuing to draw from this country - through Canada and directly - large volumes of nonagricultural raw materials and manufactured goods.

Thus both the domestic and the foreign demand for most of the foodstuffs of the United States seem likely to be greater in 1940 than in 1939, and prices in general are likely to remain on the higher level to which they were lifted at the outbreak of the war.

